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**CITY OF NAPA
SINGLE AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2009**

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**CITY OF NAPA
SINGLE AUDIT REPORT
For The Year Ended June 30, 2009**

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CITY OF NAPA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2009

SECTION I—SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:

Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? Yes X No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? X Yes None Reported

Noncompliance material to financial statements noted?

 Yes X No

Federal Awards

Type of auditor's report issued on compliance for major programs:

Unqualified

Internal control over major programs:

- Material weakness(es) identified? Yes X No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? X Yes None Reported

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?

 X Yes No

Identification of major programs:

<u>CFDA#(s)</u>	<u>Name of Federal Program or Cluster</u>
<u>14.871</u>	<u>Section 8 Housing Choice Vouchers</u>
<u>20.205</u>	<u>Highway Planning and Construction</u>
<u>20.601</u>	<u>Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants</u>
<u>97.044</u>	<u>Assistance to Fire Fighters</u>

Dollar threshold used to distinguish between type A and type B programs: \$633,635

Auditee qualified as low-risk auditee? Yes X No

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SECTION II – FINANCIAL STATEMENT FINDINGS

Our audit did disclose a significant deficiency in internal controls which is listed on the Schedule of Significant Deficiencies in the Memorandum on Internal Control dated March 15, 2010 which is an integral part of our audits and should be read in conjunction with this report.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Our audit disclosed the following findings and questioned costs required to be reported in accordance with section 510(a) of OMB Circular A-133.

SA09-01: Filing of Reimbursement Requests

Federal Agency: US Department of Transportation

Granting Agency: California Department of Transportation

Program Name: Highway Planning and Construction Grants (CFDA #20.205)

Project Name: 1st Street Bridge at Napa River Project

Criteria

Pursuant to Paragraph 11 of the Special Covenants or Remarks section of Program Supplement No. M015, Rev. 3 of the Administering Agency-State Agreement for Federal Aid Projects No. 04-550-42 (Award Agreement), the City is required to submit invoices at least once every six months to CALTRANS for reimbursement of project costs.

Requests for reimbursement should reflect allowable Federal expenditures that agree to the City's general ledger or other supporting documentation.

Condition

We noted that the City filed one reimbursement request dated October 28, 2009 for the entire fiscal year rather than preparing semiannual requests as required under the Award Agreement. We also noted that the amount claimed for reimbursement on the request totaled \$8,609,688 which was \$308,952 less than total expenditures in the City's general ledger project account.

Effect

Late submittal of reimbursement requests results in a material cash drain of City resources as it pays for costs throughout the fiscal year without timely reimbursement. This delay in requesting funds understates the City revenues and jeopardizes reimbursement realization.

Cause

During FY08-09, the 1st Street Bridge Project was accelerated by external scheduling factors that unexpectedly required continuous monitoring by staff up to seven days per week. Staff became overloaded with daily activities and deemed the task of submitting reimbursement requests a lower priority than other tasks, such as contract management, cost containment, and quality control. The result is staff completed only one (1) reimbursement request instead of two (2) requests at six month intervals.

In addition, the amount of the reimbursement request is for expenses as tracked by the Public Works Department, which included expenditures on the cash basis and therefore did not include a large contractor payment made in September 2009 and partially accrued back to fiscal 2008-09.

Recommendation

The City should ensure that reimbursement requests are submitted timely in accordance with the Award Agreement. Reimbursement requests should include all eligible federal expenditures that agree to supporting documentation such as the City's general ledger. Each Program or Project Manager should agree requests for reimbursement to the general ledger before submitting them.

Corrective Action Plan:

The Public Works Department, in conjunction with the Finance Department, will provide additional staff training to 1) Prioritize reimbursement requests and; 2) Establish new protocols and oversight to ensure all reimbursement requests prepared by the Public Works Department are tied out to the General Ledger prior to submission.

SECTION IV - STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS –

Prepared by Management

Financial Statement Prior Year Findings

There are prior year Financial Statement findings included in our separately issued Memorandum on Internal Control dated March 15, 2010 which is an integral part of our audits and should be read in conjunction with this report for current year status.

Federal Award Prior Year Findings and Questioned Costs

SA2008-01: Section 8 Voucher Program (CFDA #14.871) Utility Allowance Schedule

Federal Agency & Granting Agency: US Department of Housing and Urban Development

Per 24 CFR section 982.517, the Housing Authority must review utility rate data for each utility category each year and must adjust its utility allowance schedule if there has been a rate change of 10 percent or more for a utility category or fuel type since the last time the utility allowance schedule was revised.

During fiscal 2007-08, the Housing Authority did not review the current utility rate data to determine if there had been a rate change of 10 percent or more since January 1, 2007. This can lead to overcharging or undercharging utility costs. The cause of this is that the Housing Programs Coordinator was terminated in 2007. We understand that the Housing Authority updated the utility allowance schedule in December 2008. We identified no questioned costs from this issue.

Current Status

The Housing Authority has a system in place to update the Utility Allowance Schedule on an annual basis. The Utility Allowance was reviewed by the Housing Authority Board on September 8, 2008 and implemented on December 1, 2008. During the 2008-09 fiscal year, the Utility Allowance was reviewed by the Housing Authority Board on November 3, 2009 and implemented on December 1, 2009.

SA2008-02: Section 8 Voucher Program (CFDA #14.871) Rent Certifications

Federal Agency & Granting Agency: US Department of Housing and Urban Development

For fiscal 2007-08, we determined that the City's Section 8 Housing Choice Vouchers qualified as a major program and subjected program payments to tests for compliance as required by the OMB Circular A-133, Compliance Supplement, Part 4, Agency Programs Requirements of the Department of Housing and Urban Development, Section 8 Housing Choice Vouchers (CFDA 14.871). These requirements state that program participants must provide necessary information, documentation, and releases to the Housing Authority to verify income eligibility. In addition, the above requirements also require that the Authority determine "reasonable rent" during the term of the Housing Assistance Payment contract.

During the interim phase of our work in June 2008, we selected forty tenant files for tests of compliance with the above requirements. Out of our samples, one file did not contain the "Income Examination Release Authorization" form and nine did not contain "Reasonable Rent Certification" forms and nineteen files had unsigned forms. We reviewed the results of our work with the Director of Finance and Housing Manager who indicated that staffing resources were changing due to a retirement and staff was in the process of addressing the results of a HUD Inspector General audit. We were informed that staff was going to be taking more training and improving their process and files.

To comply with HUD requirements, the Authority should establish procedures to routinely inventory tenant files and verify required procedures have been completed and required documentation is present and complete.

Because of the error rate noted in our first sample, we selected another forty files, in February 2009, after staff had completed training and staff turn over had subsided. We noted no errors in our second sample.

We identified no questioned costs from these issues.

Current Status

During Quality Assurance Monitoring, files are reviewed by the Housing Services Specialist to insure compliance. This function is conducted on an ongoing basis.

CITY OF NAPA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2009

<u>Grantor Agency and Award Title</u>	<u>Identifying Grant # or Pass-Through Grant #</u>	<u>Federal Catalog Number</u>	<u>Program Expenditures</u>
U.S. Department of Housing and Urban Development Community Development Block Grant Program Expenditures		14.218	<u>\$797,428</u>
Supportive Housing Program	CA01B617004	14.235	<u>20,521</u>
Shelter Plus Care Program	CA01C317001	14.238	59,618
Shelter Plus Care Program	CA01C617001	14.238	<u>18,078</u>
Program Subtotal			<u>77,696</u>
HOME Investment Partnership Program (Pass through the State of California, Department of Housing and Community Development)			
From grant allocation	06-HOME-2363	14.239	532,500
Program Income	06-HOME-2363	14.239	<u>200,525</u>
Program Subtotal			<u>733,025</u>
Section 8 Section 8 Housing Choice Vouchers	CA39V073-059-069	14.871	<u>9,679,183</u>
Section 8 Moderate Rehab SRO	CA39K073-SR0003	14.249	<u>37,942</u>
Total Department of Housing and Urban Development			<u>11,345,795</u>
U.S. Department of Justice Bureau of Justice Assistance Edward Byrne Memorial (JAG Grant)	2007-DJ-BX-0486 2007-BU-BX-07039140	16.738	<u>15,090</u>
Bulletproof Vest		16.607	<u>10,341</u>
Total Department of Justice			<u>25,431</u>

(Continued)

CITY OF NAPA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2009

<u>Grantor Agency and Award Title</u>	<u>Identifying Grant # or Pass-Through Grant #</u>	<u>Federal Catalog Number</u>	<u>Program Expenditures</u>
U.S. Department of Transportation			
Highway Planning and Construction (Federal-Aid Highway Program)			
(Pass through the State of California/Caltrans)			
3rd Street Overlay	STPL-5042(044)	20.205	40,113
1st Street Bridge over Napa Creek	BRLS-5042(012)	20.205	22,664
Seminary St.Bridge/Napa Creek	STPLX-5042(026)	20.205	14,183
1st Street Bridge at Napa River	BRLS-5042(038)	20.205	8,918,640
Program Subtotal			8,995,600
State and Community Highway Safety			
(Pass through the State of California/Office of Traffic Safety)			
Alcohol Traffic Safety and Drunk Driving Prevention			
Incentive Grants	PT0814	20.600	190,833
AVOID the 9	AL09103	20.600	34,162
Program Subtotal			224,995
Total Department of Transportation			9,220,595
U.S. Department of Homeland Security			
Public Assistance Grant			
(Pass through the State of California/OES)			
Flood-December 2005	FEMA 1628 DR	97.036	289,964
Flood Mitigation Grant			
FMA Home Elevation	2006-003 PJ11	97.029	2,328
Assistance to Firefighters Grant			
Purchase Wildland Engine	EMW-2008-FV-05774	97.044	237,050
Total Department of Homeland Security			529,342
Total Expenditures of Federal Awards			\$21,121,163

See Accompanying Notes to Schedule of Expenditures of Federal Awards

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CITY OF NAPA
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended June 30, 2009

NOTE 1-REPORTING ENTITY

The Schedule of Expenditure of Federal Awards (the Schedule) includes expenditures of federal awards for the City of Napa, California and its component units as disclosed in the notes to the Basic Financial Statements.

NOTE 2-BASIS OF ACCOUNTING

Basis of accounting refers to *when* revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus applied. All governmental funds and agency funds are accounted for using the modified accrual basis of accounting. All proprietary funds are accounted for using the accrual basis of accounting. Expenditures of Federal Awards reported on the Schedule are recognized when incurred.

NOTE 3-DIRECT AND INDIRECT (PASS-THROUGH) FEDERAL AWARDS

Federal awards may be granted directly to the City by a federal granting agency or may be granted to other government agencies which pass-through federal awards to the City. The Schedule includes both of these types of Federal award programs when they occur.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Honorable Mayor and City Council
of the City of Napa, California

We have audited the financial statements of the City of Napa as of and for the year ended June 30, 2009, and have issued our report thereon dated March 15, 2010. We conducted our audit in accordance with generally accepted auditing standards in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We have identified a deficiency we consider to be a significant deficiency in internal control over financial reporting which is listed as item 2009-01 on the Schedule of Significant Deficiencies in our separately issued Memorandum in Internal Control dated March 15, 2010 which is an integral part of our audits and should be read in conjunction with this report.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about the whether City financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. We consider one deficiency to be a significant deficiency in internal control over compliance which is listed as item SA09-01 in Section III -- Federal Award Findings and Questioned Costs included in the accompanying Schedule of Findings and Questioned Costs.

The City's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the City's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of City Council, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



March 15, 2010

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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

Honorable Mayor and City Council
of the City of Napa, California

Compliance

We have audited the compliance of the City of Napa with the types of compliance requirements described in the OMB Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. The City's major federal programs are identified in Section I - Summary of Auditor's Results included in the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in Section III - Federal Award Findings and Questioned Costs included in the accompanying Schedule of Findings and Questioned Costs.

Internal Control over Compliance

The management of the City is responsible for establishing and maintaining effective internal controls over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the City's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A *control deficiency* in a City's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the City's internal control. We consider one deficiency to be a significant deficiency in internal control over compliance which is listed as item SA09-01 in Section III – Federal Award Findings and Questioned Costs included in the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the City's internal control. We did not consider any of the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the City as of and for the year ended June 30, 2009, and have issued our report thereon dated March 15, 2010. Our audit was performed for the purpose of forming opinions on the financial statements. The accompanying schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of City Council, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Magee & Seaborn

March 15, 2010

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